B6200-2

World Financial Markets

Morgan Guaranty Trust Company of New York

April/May 1986

Growth and financial market reform in Latin America, 1

Government as a borrower, 3

Government and the allocation of credit, 5

Government and the generation of savings, 8

Conclusion, 10

Statistical appendix, 11

Growth and financial market reform in Latin America

The revival of strong and sustainable economic growth is the paramount challenge facing Latin American countries. Their successful achievement of relatively satisfactory trade and current account results has not led to the hoped-for recovery in growth. Indeed, with the region's half-dozen oil exporters now retrenching, real GDP growth in Latin America as a whole is likely to average little more than 1% this year — implying a further slide in per capita incomes that will bring their cumulative decline to 8% on average since they peaked in the early 1980s (see Table 1).

In the decade prior to 1982, economic growth in Latin America was driven by government spending amid booming commodity prices, rapid export volume gains, and massive inflows of borrowed capital. The favorable external features have since been absent and look set to remain so. Non-oil commodity prices currently average about 20% below their 1980 peak. They are unlikely to rebound significantly in the near term given low inflation and moderate economic growth in industrial countries. Besides, basic structural changes in both demand and supply will continue to hold down prices of most raw materials. Even the 25% effective dollar depreciation of the past twelve months has failed to promote much of a rise in dollar commodity prices. Petroleum-exporting countries, of course, are in a particularly difficult position.

Latin America's economic policies have had greater success in curbing import demand than in promoting new or substantially increased exports. Nor is the outlook promising for expanded export capacity in the immediate future. Meanwhile, the U.S. market, which accounted for almost half of Latin America's exports last year and for virtually all of its export gains since 1982, is no longer growing rapidly. Latin American penetration of European and Japanese markets remains low, and import demand in those markets continues slack.

International capital markets are not opening up to potential borrowers in the region. Involuntary lending linked to IMF-World Bank programs under the Baker initiative appears to be the only workable approach for some years to come. Yet the amount of commercial bank and official loans envisioned by the initiative pales in comparison with the $40 billion per annum that flowed

Table 1

Economic growth

	Real GDP % per annum			Real GDP per capita % change from early 1980s' peak to 1986
	1982-1983	1984-1985	1986	
Argentina	—1.0	—1.1	2.0	—16.8
Brazil	—1.1	6.4	3.0	—1.9
Chile	—7.6	4.4	4.0	—11.3
Colombia	1.0	3.0	4.5	1.8
Ecuador	—1.0	3.6	2.0	—6.7
Mexico	—2.9	3.2	—2.0	—12.9
Peru	—5.7	3.1	2.5	—15.0
Venezuela	—2.5	—0.9	—1.0	—12.3
8 major Latin American countries	—2.0	3.5	1.1	—8.0

Table 2

Investment and savings

percent of GNP in current prices

	Investment*	Savings: National	Savings: Foreign**
Argentina			
1979-80 avg.	25.2	23.3	1.9
1981	19.4	14.3	5.1
1982	19.6	13.6	6.0
1983	19.6	15.3	4.3
1984	17.3	12.6	4.7
1985	16.3	14.1	2.2
Brazil			
1979-80 avg.	22.7	17.6	5.1
1981	22.1	17.6	4.5
1982	22.4	16.3	6.1
1983	18.0	14.5	3.5
1984	17.4	17.1	0.3
1985	17.3	16.4	0.9
Mexico			
1979-80 avg.	27.8	23.9	3.9
1981	30.0	24.8	5.2
1982	22.5	23.3	—0.8
1983	21.6	25.8	—4.2
1984	23.0	25.4	—2.4
1985	25.4	26.1	—0.7

*Gross fixed capital formation plus increase in stocks, except for Brazil where data on stocks are unavailable.

**Measured by the deficit on current account, minus sign indicates surplus.

voluntarily into Latin America during the boom years of 1978-82.

Frustration over the growth outlook has led to calls for increases in new money inflows and reductions in interest payments. Interest rate relief is already coming to pass: with six-month Eurodollar LIBOR down to around 6¾% — nearly seven percentage points below the 1982 average level — debtor countries are experiencing a major reduction in debt-servicing costs. Beyond this market-determined reduction, any resort to unilateral moratoria, forced capitalization of interest, or insistence on below-market rates of interest would surely do more harm than good: it would cut access to existing commercial and official external finance and discourage any repatriation of resident-owned assets held abroad. Actions such as Peru has taken will neither increase available resources for development nor substitute for fundamental growth-oriented policy reforms.

Several countries in 1984-85 sought to resuscitate economic activity by loosening fiscal, monetary, and wage policies. Laxity only made matters worse: it pushed inflation intolerably higher (as in Argentina and Brazil), set back progress on external adjustment (Chile), or both (Mexico). The expansionary thrust of government policies has had to be reversed, most drastically in Argentina and Brazil. Mexico has delayed finalizing its 1986 program in view of oil market uncertainties.

A better way to achieve vigorous, sustainable economic growth in Latin America is through higher investment in productive, export-oriented or import-competing activities. This cannot happen unless there are strong incentives for residents to save — and to do so at home; opportunities are opened up for them and for foreigners to invest locally in sectors with comparative advantage; and fair, stable rules come to govern the process of saving and investing. In turn, basic structural deficiencies must be remedied: public sectors that are overextended and mismanaged; trade regimes that are inward- instead of outward-looking; and financial markets that seldom work to promote savings or invest them efficiently.

Domestic investment in Latin America has slowed dramatically in recent years, mainly because the post-1982 drop in foreign savings generally has not been offset by a rise in national savings. In Argentina, capital formation has fallen steadily for five years, from over 25% of GNP in 1979-80 to an estimated 16% of GNP last year (see Table 2). In Brazil, investment has stabilized at around 17% of GNP, down from an annual average of 27% during the 1970s. Mexico, which saw investment drop from over 28% of GNP in 1979-81 to a low of 22% in 1982-83, has since witnessed partial investment recovery that will not be sustained this year or next.

The fall in investment must now be reversed if economic growth in Latin America is to take off and become self-sustaining. Financial markets normally would be expected to play a central role in this process. This article argues that, at present, government interference prevents Latin America's capital markets from playing even a supportive role. Not only do fiscal deficits drain available savings, but current government financing practices weaken the ability of the central banks to pursue noninflationary monetary policy. They also crowd out the private sector and distort the structure of interest rates, with adverse consequences for investment decisions in the public and private sectors. Government allocation of credit to the private sector also segments credit markets, fosters capi-

Table 3

Composition of national savings

percent of GNP in current prices

	Public sector*	Private sector	Total
Argentina			
1979-80 avg.	3.1	20.2	23.3
1981	—6.5	20.8	14.3
1982	—9.8	23.4	13.6
1983	—8.3	23.7	15.3
1984	—5.1	17.7	12.6
1985	3.2	10.9	14.1
*Brazil***			
1980	3.4	13.6	17.0
1981	2.7	14.9	17.6
1982	1.1	15.2	16.3
1983	—0.2	14.7	14.5
1984	—1.0	18.1	17.1
1985	—3.6	20.0	16.4
Mexico			
1979-80 avg.	2.2	21.7	23.9
1981	—1.4	26.2	24.8
1982	—8.4	31.7	23.3
1983	—0.6	26.4	25.8
1984	0.5	24.9	25.4
1985	—3.1	29.2	26.1

*Nonfinancial public sector.

**Savings performance of public sector is underestimated, and of private sector is overestimated, by the inclusion of outlays for monetary correction in Brazilian government transfer payments.

Table 4

Financing sources of public-sector deficits*

percent of total financing annual averages

	1980-81	1982-83	1984-85
Argentina			
Domestic	71	82	84
External	29	18	16
Brazil			
Domestic	92	90	93
External	8	10	7
Mexico			
Domestic	54	74	92
External	46	26	8

*Nonfinancial public sector.

tal-intensive or wasteful investment by preferred borrowers, prevents reallocation of investment to more competitive activities, and undermines the soundness of financial institutions. Government controls on interest rates, the tax treatment of interest, and accounting rules ill-suited to an inflationary environment discourage savings and its efficient intermediation by financial institutions, promote excessive corporate leveraging, and encourage capital flight. Unless government intervention in financial markets is sharply reduced, especially in Argentina and Mexico, it will be very difficult to expand the pool of savings, improve the productivity of investment, and accelerate economic growth.

Malfunctioning financial markets are prime examples of the underlying structural deficiencies characteristic of troubled LDC debtors. Despite the demonstrable progress made in terms of external trade and current account adjustment, the structural deficiencies block the restoration of confidence among their own residents and foreign creditors and investors alike, preventing a return to creditworthiness. To promote the normalization of capital flows and the stronger economic growth that they can underwrite, the time is ripe for comprehensive reforms of domestic institutions and policy practices. Such reforms are far from easy because they undercut vested political, business, and labor interests which have mushroomed under government protection and support. The needed reforms will require fully as much courage and determination on the part of political leaders as the painful, belt-tightening policies of the past four years. Yet, as the Baker initiative correctly points out, thoroughgoing structural reforms are the *sine qua non* for lasting recovery of economic growth.

Government as a borrower

Financial markets in Latin America are shallow and inefficient. These flaws are the legacy of four decades of government participation in, and regulation of, financial intermediation — through the public sector's presence as the leading borrower, its influence over credit allocation among private-sector borrowers, and its reluctance to let market forces provide incentives to save and invest domestically.

Government's dominant role in Latin America's financial markets dates back to the late 1940s and 1950s, when a new approach to economic development was espoused. It held that industrialization, fostered as necessary by protection and subsidies, was the only means to economic progress. Accordingly, major changes were introduced in fiscal, monetary, wage, exchange rate, and foreign trade policies. Downplaying traditional concerns with financial stability, central banks joined the effort to promote industrial development. They granted credit, directly and through rediscounts to banks, to qualified private and state-owned companies; set high reserve requirements to provide zero- or low-cost financing for expanded Treasury budgets; and established ceilings on interest rates to stimulate investment overall. Financial institutions were created by federal and even state governments in many countries to capture rural savings and channel credit to preferred users.

Subsidized industrialization proved highly expensive to governments. Savings in the public sector, measured by the difference between current revenues and current spending, failed to cover large-scale investment outlays, which increasingly had to be financed through borrowing. Annual budget imbalances of 5%-10% of GNP became common.

Table 5

Domestic financing of public-sector deficits*

percent of total domestic financing annual averages

	1980-81	1982-83	1984-85
Argentina			
Central bank	52	68	44
Rest of banking system	39	40	64
Public debt instruments	4	4	0
Arrears and other	5	—12	—8
Brazil			
Central bank**	0	9	—5
Rest of banking system	73	68	68
Public debt instruments	22	19	36
Arrears and other	5	4	1
Mexico			
Central bank	71	73	52
Rest of banking system	21	14	36
Public debt instruments	8	13	12
Arrears and other	0	0	0

*Nonfinancial public sector.

**Through end-1985 the Banco Central do Brasil and the Banco do Brasil jointly comprised the monetary authority.

Table 6

Money and prices

percent change in money plus quasi money (M) and in consumer prices, Dec-Dec

	Argentina		Brazil		Mexico	
	M	CPI	M	CPI	M	CPI
1980	86	88	61	95	37	30
1981	113	131	94	93	49	29
1982	162	210	85	103	71	99
1983	402	434	136	164	63	81
1984	611	688	260	209	67	59
1985	424	385	317	234	45	64

During the 1970s, for example, Mexico and Argentina recorded yearly deficits averaging 6½% and 7½% of GNP, respectively. In the early 1980s, these and other countries recorded still higher deficits, in the range of 10%-20% of GNP.

The poor and deteriorating savings performance of the public sector in the three largest Latin American countries is illustrated in Table 3. Despite their large size and potential contribution to national savings, the public sectors of Argentina, Brazil, and Mexico have become net users of household and corporate savings. Argentina's recent fiscal progress has come at the price of an equivalent reduction in private-sector savings.

The dearth of public-sector savings has had several consequences not anticipated by the advocates of industrialization. First, it has contributed to the accumulation of external debt because governments, their agencies, and state-owned companies have sought financing abroad. The extreme case is Mexico (see Table 4). At present, more than half the total indebtedness of the nonfinancial public sectors and the central banks of Argentina, Brazil, and Mexico is external rather than domestic.

Second, it has weakened the ability of central banks to control monetary aggregates and thus limit inflation. In Argentina and Mexico, for instance, the bulk of domestic financing to the public sector has been provided directly by the monetary authorities (see Table 5). In theory, the public sector's credit needs might have been fulfilled with no inflationary consequences had credit to the private sector been correspondingly reduced. In practice, however, central banks in Latin America have been unable, politically, to impose overall quantitative controls on credit to the private sector or to let interest rates rise enough to curb private demand for credit and induce greater financial savings. Even in Brazil, where there has been little or no reliance on central bank financing, monetary policy has tended to accommodate government and private-sector borrowing needs passively, with the same loss of control over monetary growth and inflation as in the other countries (see Table 6).

Third, public-sector borrowing has crowded out the private sector. The share of total credit expansion going to the public sector rose in Argentina from 22% in 1980-81 to 36% in subsequent years; in Brazil it increased from about 24% to over 30%; and in Mexico it grew from almost 60% to over 80% in 1982-83 and still was as high as 65% in 1984-85 (see Table 7). By the end of last year, government agencies and corporations accounted for 35% of credit outstanding in Argentina, 32% of total credit in Brazil, and 72% in Mexico. In inflation-adjusted terms, credit to the public sector grew substantially in all three countries during 1980-83 even as credit to the private sector was being reduced. Only in the past two years — in Brazil and Mexico, but not in Argentina — has credit to the government been cut while some loan expansion to private borrowers has taken place (see Table 8).

Fourth, the financing of public-sector deficits in most countries has severely distorted the structure of interest rates. With few exceptions (mainly Brazil and Chile in recent years), governments have obtained a major portion of their financing from the banking system at below-market interest rates. Central banks are usually required to purchase Treasury obligations and they, in turn, impose high reserve requirements on commercial banks.

Argentina and Mexico, in particular, have a long history of very high reserve requirements. Although Ar-

Table 7

Public-sector share of credit extended by domestic financial institutions

	Argentina	*Brazil*	*Mexico*
Percent of total credit expansion, annual averages			
1980-81	22.3	24.3	58.1
1982-83	34.1	34.1	82.0
1984-85	36.4	30.3	65.1
Percent of total credit outstanding, at year-end			
1980-81 avg.	19.3	20.9	57.7
1983	39.1	33.8	76.3
1985	35.5*	32.1	72.5

*September.

Table 8

Growth of credit to public and private sectors from domestic financial institutions

in real terms, percent per annum

	1980-81	*1982-83*	*1984-85*
Argentina			
Public sector	66.3	19.2	—22.1
Private sector	12.1	—13.9	—13.9
Brazil			
Public sector	20.0	28.8	—1.6
Private sector	—3.1	—2.1	2.4
Mexico			
Public sector	13.7	10.4	—2.0
Private sector	8.1	—24.9	8.1

Table 9

*Reserve requirements**

percent of demand and time deposits at commercial banks, at year-end

	*Argentina***	*Brazil*	*Mexico*
1980-81 avg.	9	19	49
1982	79	20	57
1983	75	16	58
1984	57	23	53
1985	52	17	39

*Required reserves on deposit with monetary authorities or held in the form of government securities. Data for Argentina include shortfalls from required reserves. Data for Mexico include some reserves held voluntarily with the Bank of Mexico.

**Commercial and savings banks.

gentina's requirements were lowered substantially in the late 1970s, since 1982 the bulk of deposits has been reservable up to 100% — offset in part by rediscounts. At present, complex requirements immobilize over half the deposits (see Table 9). Requirements in Mexico were increased sharply during the late 1970s and early 1980s to a peak of almost 60% of deposits. The trend began to be reversed a year-and-a-half ago, but reserves still average about 40% of total deposits. Brazil, by contrast, has never imposed extreme reserve requirements; those on commercial banks averaged under 20% of deposits during the 1960s and 1970s and government policy during the past year has lowered requirements further.

Reliance on these methods of deficit financing has hidden the cost of running deficits. The burden has been shifted to the public at large through the "inflation tax" on money holdings and by lower interest rates on bank deposits and higher rates on bank lending than would otherwise prevail. As shown in Table 10, the annual average rate of interest paid on internal debt by the governments of Argentina and Mexico during 1980-85 has never compensated for the effect of inflation on the value of obligations. Had nominal interest rates on government debts matched rates of inflation starting in 1980, assuming also no adjustment in other public-sector accounts, the interest bill on Argentine and Mexican domestic indebtedness would have grown explosively in the years thereafter, instead of gradually or not at all (see Table 11).

Quite differently, Brazil's government obtained funds from financial intermediaries and the public at large mostly on a voluntary basis; it has offered a rate of return usually higher than inflation. Treasury bonds indexed to inflation and bearing an interest rate above indexation have been issued since the mid-1960s to meet deficit financing requirements, and nonindexed Treasury bills have been auctioned at competitive discounts since 1970. Loans by the banking system to the government have been indexed as well. This approach clearly raised public-sector financing costs and magnified overall borrowing requirements. It also paved the way for widespread indexation of the Brazilian economy and self-perpetuating inflation — a condition the current anti-inflation program, the Cruzado Plan, attempts to redress. Nevertheless, Brazil's more forthright approach to budgetary financing has helped develop a capital market that is less distorted than in Argentina and Mexico.

Harder to quantify, but nonetheless important, is the effect that government access to seemingly low-cost financing has had on investment decisions in the public sector. Over the years an artificially low cost of capital relative to other input costs has signaled government planners and managers in state-owned companies that capital-intensive projects make eminent sense. This helps to explain why government-run industries often borrow heavily to invest in capital-intensive production methods when less costly, labor-intensive methods may be more appropriate. It also accounts for underused capacity in many capital-intensive government projects and poorer maintenance of physical plant.

Government and the allocation of credit

Beyond their public-sector burdens, financial markets in Latin America have been distorted by credit allocation rules. These made their appearance in the late 1940s and have remained in effect in most Latin

Table 10

Average interest rate on public-sector domestic debt and average inflation rate

percent per annum

	Argentina		Brazil		Mexico	
	*Interest rate**	*Consumer prices*	*Interest rate***	*Consumer prices*	*Interest rate**	*Consumer prices*
1980	19.9	100.8	n.a.	82.8	10.8	26.3
1981	30.9	104.5	89.0	98.6	16.9	27.9
1982	19.2	164.5	131.3	100.4	21.7	58.9
1983	10.4	343.8	136.7	133.4	28.5	101.9
1984	7.2	626.7	250.2	188.8	37.3	65.4
1985	11.2	673.4	270.4	224.6	32.6	57.7

*Derived from comparing the annual interest expense on domestic indebtedness incurred by the nonfinancial public sector with the estimated midyear stock of its domestic debt.

**Derived from data on bonded debt of the central government.

Table 11

*Public-sector interest payments on domestic debt**

percent of GDP

	Argentina		Mexico	
	Actual	*Hypothetical***	*Actual*	*Hypothetical***
1980	2.6	5.3	2.0	7.6
1981	5.2	12.7	3.3	10.3
1982	5.7	23.4	5.9	35.7
1983	2.0	36.4	7.9	27.0
1984	3.7	51.6	9.1	18.8
1985	3.5	34.7	8.6	20.6

*Derived from data for the nonfinancial public sector.

**Calculated by applying a nominal rate of interest equal to inflation to the end-1979 stock of public debt, and to all subsequent borrowing requirements, assuming no adjustment to other revenue and expenditure accounts.

Table 12

Rediscounts

central bank credit to financial institutions as percent of loans outstanding at financial institutions, at year-end

	Argentina	*Brazil*	*Mexico*
1980-81 avg.	12	4	2
1982	45	3	4
1983	27	2	1
1984	29	2	1
1985	39*	2	1

*September.

American countries ever since. Credit allocation entails granting central bank rediscounts to financial intermediaries, often favoring financially troubled or state-owned banks, for onlending to specified categories of borrowers; setting loan portfolio requirements for financial institutions; or establishing state-owned banks or trust funds with a mandate to lend for certain purposes. Credit to designated users usually is made available on very favorable terms relative to other prevailing rates.

The use of the central bank's discount window to direct credit is especially well established in Argentina (see Table 12), where high reserve requirements often have been imposed precisely to enable the authorities to gain fuller control over banks' loan portfolios. A large increase in required reserves in mid-1982, for instance, was approved at the same time that a major rediscount facility was opened to steer banks into rescheduling the short-term debt of highly leveraged private-sector companies at very low interest rates. More recently rediscounts have been used to fund government-owned banks with troubled loan portfolios. In contrast, rediscounts are not a tool of credit allocation in Brazil and Mexico.

Loan portfolio requirements are another story. Banks in Mexico traditionally have had to lend between 25% and 40% of their deposits to priority borrowers, such as small farmers and enterprises and buyers of low-cost housing. Given high reserve requirements plus these loan portfolio requirements, banks' discretionary loan portfolios seldom have amounted to more than 20%-25% of deposits. Since July of last year, indeed, the freely lendable portion of *new* deposits has fallen to a record low of 11%, because a cut in marginal reserve requirements has been more than offset by increased allocations of credit to public-sector funds and programs.

Brazilian commercial banks are subject to more moderate portfolio requirements intended to benefit agriculture and small-scale industry. The minimum ratio of agricultural loans to demand deposits was gradually increased to 35% by the end of 1982, and has ranged since then between 10% and 55%, depending on bank size. The requirement on working capital loans to small business was raised in 1981 from 12% to a range between 12% and 16% of demand deposits. Despite these increases, however, the effective burden of portfolio requirements has not risen over time because, with spiraling inflation, demand deposits dwindled from 85% of total bank deposits in the early 1970s to about 40% in 1984-85. Thus, the reserve and portfolio requirements imposed since 1980 have not reduced the freely lendable portion of demand and time deposits below 60%.

The creation of government-owned financial institutions to control credit allocation firsthand became commonplace throughout Latin America two to four decades ago. In Argentina, the federal government owns two commercial banks, a development bank, a mortgage bank, and a savings bank; provincial governments own twenty-four

Table 13

*Market share of state-owned financial institutions**

at year-end

	Argentina	Brazil	Mexico
*Deposits***			
1980-81 avg.	41	58	11
1982	49	60	99
1983	45	59	99
1984	46	58	99
1985	57	61	99
*Loans****			
1980-81 avg.	45	48	51
1982	51	51	99
1983	50	51	99
1984	50	51	99
1985	57	54	99

*Excludes central bank in all cases and also Banco do Brasil in the case of Brazil.

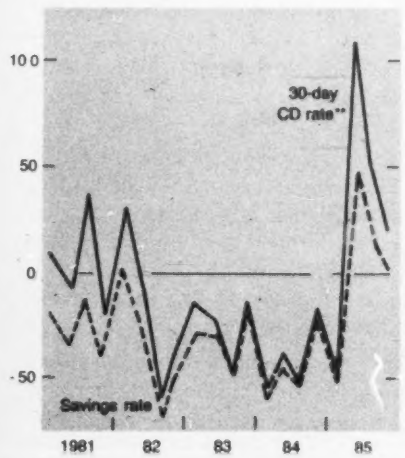
**Demand, time, savings, and other deposits.

***Includes loans made by financial intermediaries that do not accept deposits.

Chart 1

*Argentina: real interest rates**

percent per annum



*Nominal rates deflated by consumer price inflation.

**Regulated rate until March 1985, free rate thereafter.

commercial banks, a development bank, and an investment bank; and municipalities own five commercial banks. Altogether, these institutions now account for about 57% of deposits and loans in the banking system, up from 41%-45% in 1980-81 (see Table 13).

In Brazil, the federal government owns three commercial banks, three development banks, and a savings bank; state governments own twenty-four commercial banks, thirteen development banks, four savings banks, and several investment banks, plus consumer finance and real estate credit companies. These intermediaries receive about 61% of banking system deposits and account for 54% of total loans. Including the giant Banco do Brasil, which recently became a commercial bank, the government's market share of end-1985 deposits was 68% and of loans, 57%.

The Mexican government owns eight development banks, over thirty trust funds and, since their nationalization in September 1982, nineteen out of twenty-one commercial banks. The trust funds make loans and give guarantees mainly to farmers, small enterprises, and exporters of manufactures. They are backed by budgetary transfers, loans from the central bank and multilateral development agencies (for example, the World Bank), and required loans from commercial banks. The share of total loans and deposits handled by state-owned financial intermediaries is now 99%. Even prior to the 1982 nationalization, government-run development banks and trust funds accounted for over half of all loans.

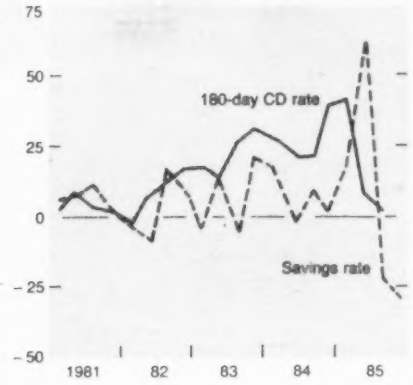
Pervasive government involvement in credit allocation has had several negative consequences in Latin America. First, it has created an entrenched class of favored borrowers — typically a combination of large privately and state-owned corporations, small-scale farmers in depressed agricultural areas, and middle-class urban dwellers, who have grown used to assured access to longer-term and lower-cost credit. Their access to concessional financing has fostered capital-intensive investments, often in labor-surplus regions and in activities that otherwise would employ labor-intensive production methods. It also has led to widespread abuse, exemplified by the use of low-cost farm credit for nonagricultural purposes.

Second, credit allocation rules have held back progress, competition, and efficiency by penalizing entrepreneurs. Lacking government support, many find bank credit in short supply and inordinately expensive. Small and medium-sized companies without an established credit record often must turn to "curb" markets for working capital at terms that discourage investment and output growth. This has thwarted private initiative by reinforcing structural rigidities when, instead, investment should grow and resources be reallocated toward more productive activities.

Third, the soundness of financial institutions has been undermined. By requiring lending at lower rates and for longer maturities to borrowers of lesser creditworthiness, credit allocation rules have burdened institutions with low-yielding and less-liquid assets of poor quality. These loans, together with high reserve requirements, have further limited banks' ability to pay attractive rates of interest to depositors and have pushed up rates charged on loans to nonpreferred customers. In all, credit allocation has created strong incentives for financial intermediation beyond the reach of reserve and portfolio requirements. Unregulated intercompany markets (especially in Argentina and Mexico) and finance companies now compete quite effectively with banks.

Chart 2

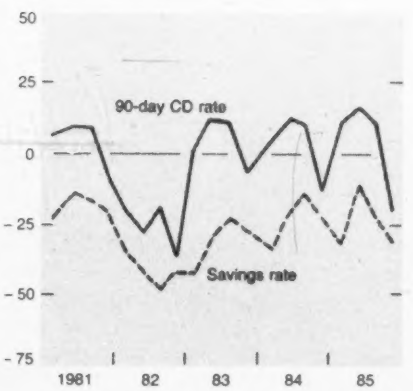
*Brazil: real interest rates**
percent per annum



*Nominal rates deflated by consumer price inflation.

Chart 3

*Mexico: real interest rates**
percent per annum



*Nominal rates deflated by consumer price inflation.

Government and the generation of savings

Government policy in Latin America also has been detrimental to savings — particularly to savings at home. Interest rate controls on bank deposits and other financial instruments and the tax treatment of interest earnings and expenses are the main obstacles to better savings performance and greater financial deepening.

Controls on nominal interest rates also date back to the 1940s. Governments were concerned that rates would deter needed investment. The view at the time was that savings, including financial savings, are mainly a function of disposable income and largely unresponsive to interest rates. Thus, financial incentives to save were not needed.

The flaws in this approach became apparent during the 1950s. Expansionary demand-management policies generated inflationary pressures that turned preestablished interest rates on financial instruments sharply negative in real terms. Contrary to expectation, disintermediation and capital flight quickly followed. Most governments found it necessary to loosen controls or at least adjust administered interest rates upward to preserve financial stability. The authorities in Brazil went furthest: in the mid-1960s they legalized the indexation of financial contracts, pushing up the structure of interest rates in close relation to inflation — while forsaking neither regulation of rates paid above monetary correction nor manipulation of the applicable index itself. In the late 1970s interest rates were actually freed in Argentina and Chile, although financial markets were distorted by the parallel decision to fix those countries' exchange rates at unrealistic levels. Since 1982, interest rates have returned to strict control in Argentina and have been managed in Chile.

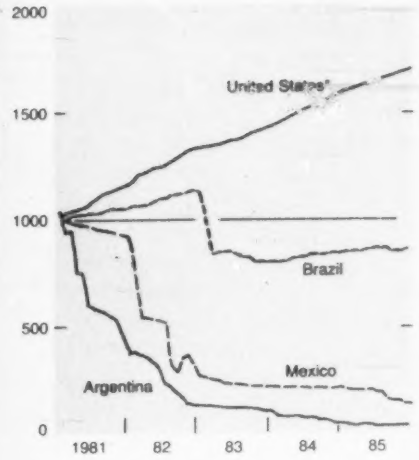
Despite growing recognition that interest rates do matter, Latin America's financial market liberalization has been generally insufficient or too short-lived to assure depositors of a steady, positive rate of return. Realized real interest rates, measured by nominal interest rates deflated by recorded inflation, have tended to fluctuate widely but mostly in a negative range. For example, when adjusted for inflation deposit rates available to small savers have been strongly negative in Argentina and Mexico since 1981, and have alternated between negative and positive in Brazil (see Charts 1-3). Realized rates of return on certificates of deposit issued by commercial banks, meanwhile, have been mostly negative in Argentina, periodically positive in Mexico, and positive for the most part in Brazil.

Worse, low interest rates have encouraged savings in dollar-denominated assets rather than in local-currency instruments. Charts 4 and 5 compare the dollar-equivalent values of a $1000 local-currency savings deposit or CD made in December 1980 in Argentina, Brazil, Mexico, and the United States, assuming in all cases that interest is reinvested. The reason for the poor performance of deposit instruments in Argentine and Mexican currency — and, to a lesser extent, in Brazilian currency — is government failure to permit domestic interest rates that are high enough to match or exceed exchange-rate-adjusted rates of return available abroad.

The problem is aggravated by the difference in the tax treatment of interest. Nonresident deposits in the United States are free of U.S. taxes and, if interest earnings on such deposits are undeclared in Latin America, as often is the case, they are effectively free of tax altogether. Other than on passbook savings, however, interest on deposits in

Chart 4

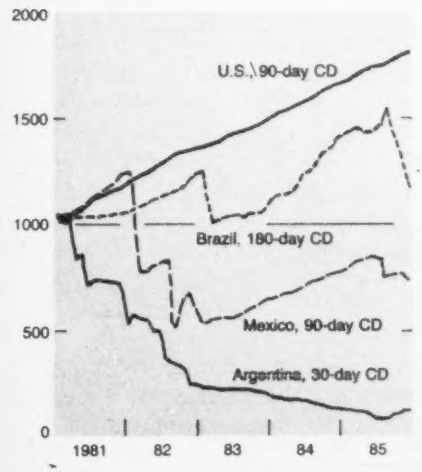
Cumulative dollar values of domestic savings deposits



*U.S. money market fund

Chart 5

Cumulative dollar values of certificates of deposit



Latin American financial institutions is generally taxed at source — and the applicable tax rates have tended to go up in recent years. These taxes can bite deeply into any pre-tax real rate of return. For instance, a hypothetical deposit rate of 100% per annum, taxed at 10%, reduces to zero the real after-tax return when inflation is 90%. Only in Brazil, prior to this year's abolition of indexation, did tax rates apply solely to the return above inflation.

The interaction of tax rates and inflation also can discourage business saving and promote debt over equity financing unless inflation accounting is used to assess corporate tax liabilities — as it was not in Argentina until recently and still is not in Mexico. Thus, in the absence of inflation accounting, a successful project gives rise to inflated profits that are taxed excessively in inflation-adjusted terms if financed from retained earnings. By contrast, where the cost of financing with borrowed funds can be deducted from nominal operating profits, taxes on real gains are minimized and the real cost of borrowed funds on an after-tax basis can be highly negative. The inadequacies of inflation accounting outside Brazil go far to explain the undercapitalization common to many Latin American companies.

Reliance on administered interest rates in the face of inflation, devaluation, and taxation has obstructed financial development in Latin America. It has reduced the pool of savings channeled through financial intermediaries into domestic capital formation and economic growth, and has encouraged the acquisition of better-yielding foreign assets — capital flight.

That currency and demand deposits should have lost appeal in the face of inflation comes as no surprise. Ratios of M1 to GDP have shrunk to the equivalent of 3%-5% in Argentina, Brazil, and Mexico — one-fourth to one-fifth the monetization observed in European or Asian countries with similar per capita incomes (see Table 14). More revealing of financial underdevelopment, however, is a comprehensive measure of financial depth that includes interest-bearing instruments: ratios of total liquid liabilities of domestic financial institutions to GDP range between 17% and 27% in the three major Latin American countries, versus 50%-110% in other countries at a similar stage of development. This is true despite extensive networks of bank branches in Latin America — the kind of saturation banking always fostered by high inflation, as bank profitability becomes largely a function of the ability to capture sight and other deposits paying little interest. Also, inflation — especially in the absence of indexation — has prompted shortening of maturities, giving a potentially destabilizing volatility to bank deposits and reducing the horizon of business investments for lack of long-term funding.

Capital flight from the region has become endemic, particularly from Argentina and Mexico. The absence of local-currency-denominated liquid assets offering positive real returns (especially after taxes) that are competitive with those available abroad has led to widespread dollarization and the massive transfer of wealth offshore. While estimates vary, capital flight from Argentina and Mexico during the past decade — at least $25 billion and $50 billion, respectively — is equivalent to between two and three years' capital formation in these two countries. Nonbank Argentine and Mexican residents hold identified deposits exceeding $8 billion and $15 billion, respectively, in banks abroad — substantial sums in relation to these countries' domestic financial markets. As shown in Table 15, they are

Table 14

Monetary aggregates

percent of GDP, as of mid-1985

	Money (M1)	*Liquid liabilities of financial institutions*
Argentina	4.1	16.7
Brazil	2.7	26.9
Mexico	4.6	21.3
Greece	14.2	80.9
Korea	8.4	47.0
Malaysia	17.0	108.2
Portugal	25.0	80.0
Spain	20.7	84.0

Table 15

Deposits of nonbanks held domestically and abroad

billions of dollars, at year-end

	*In domestic banking system**	*In banks abroad*	*Deposits abroad as % of domestic deposits*
Argentina			
1981	24.3	6.7	28
1982	8.2	7.1	87
1983	8.4	7.9	94
1984	7.7	7.6	99
*1985***	7.1	8.2	115
Brazil			
1981	47.7	3.9	8
1982	49.6	4.1	8
1983	35.1	8.1	23
1984	38.4	8.2	21
*1985***	38.7	8.5	22
Mexico			
1981	70.5	9.4	13
1982	32.2	10.4	32
1983	36.8	12.7	34
1984	45.4	14.3	31
*1985***	35.8	15.3	43

*Deposits (sight, time, and savings) and CDs in local currency converted at end-of-period exchange rates.

**September.

equivalent to over 100% of Argentine deposits in local banks and over 40% of Mexican deposits in their banks.

Financial motivations, though not the only ones, have driven capital out of Latin America. Negative interest rate differentials versus the United States, adjusted for exchange rate changes, are very important contributing factors. Estimated annual capital flight, as defined in the March issue of this publication, appears correlated with those rate of return differentials, at least for Argentina and Mexico in recent years (see Charts 6 and 7).

Conclusion

Financial markets in Latin America are not performing their vital development role of eliciting higher savings and investing savings efficiently. And they are not geared up to attract significant reflow of residents' assets now held abroad.

The problem lies in government policies. Until public sectors in Latin America are cut back in both scope and borrowing requirements, available savings will continue to finance inefficient bureaucracies and money-losing state companies — instead of capital formation with a high rate of return. Smaller and better-balanced government budgets, necessary though they be, are not a complete solution. Government financing practices must evolve away from compulsory, nonmarket mechanisms toward voluntary, market-determined vehicles that price capital appropriately for both public- and private-sector users. Warranted also are the dismantling of credit allocation rules and the phasing out of interest-rate subsidies, which ration capital resources to established, often inefficient companies at the expense of emerging industries. State-owned financial institutions should not enjoy preferential treatment and should base their lending on sound economic and financial considerations. Finally, the structure of interest rates in most countries should be freed to encourage greater financial savings — at home rather than abroad.

In Argentina and Brazil the urgency of financial market reform is acknowledged by the authorities, who are drafting regulatory changes made all the more necessary by their drastic anti-inflation programs. In the past two years, Brazil has reduced interest rate subsidies and reserve requirements. Interest rates subject to ceilings became positive in real terms in Argentina following the adoption of the Austral Plan, and since then the nonregulated segment of the credit market has been allowed to expand. However, the extent of government- and inflation-induced distortions in Brazil — and especially in Argentina and Mexico — means that a great deal remains to be accomplished.

Reform of financial markets cannot be carried out in isolation from supporting macroeconomic policies. This is the lesson from past attempts in Latin America and more successful reforms elsewhere. More often than not, industries have received preferred access to credit at concessional rates as compensation for high labor costs, overvalued exchange rates, or high import tariffs. Likewise, farmers have been granted credit allocations and interest rate subsidies as offsets to government controls on food prices or taxes on exports. It is important, therefore, that financial market reform be undertaken in the context of wide-ranging reforms seeking to get all the key prices right. Only then will the allocation of resources in both the public and private sectors be improved, setting the stage for vigorous economic growth.

This is the essential message of

Get the statistics you need by subscribing to Morgan International Data

Morgan's International Economics Department compiles statistics on real and nominal effective exchange rates, interest rates, GNP, trade balances, money market rates, industrial production, international debt, and more.

We publish this information six times a year in *Morgan International Data*, a 120-plus page statistical book crammed with important financial and economic information on 90 countries around the world.

The 102 tables report key statistics for 72 individual countries and include 148 pages of comparative data.

This important reference was developed originally for the use of Morgan bankers around the world. We now offer it on a subscription basis to readers of *World Financial Markets*.

The annual fee for six issues is $500. Additional subscriptions for the same organization are $100 a year.

To start receiving *Morgan International Data*, simply complete the order form below and return it with your check. If you have any questions about subscriptions, please telephone Sorca E. McFadden, International Economics Department, Morgan Guaranty Trust Company, at (212) 483-2302.

Morgan Guaranty Trust Company, International Economics Department, 23 Wall Street, New York, NY 10015

Please start a subscription to *Morgan International Data* for one year, beginning with the next issue, at the annual fee of $500. Mail the data book to:

Name_____

Address_____

☐ Check for subscription fee is enclosed. ☐ Send bill for subscription fee to:

Name_____

Address_____

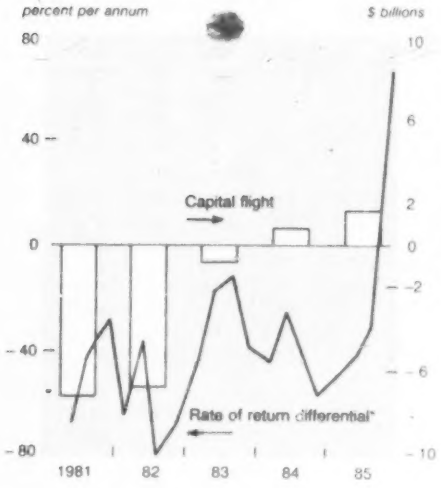
We understand that *Morgan International Data* is furnished for our exclusive and confidential use, that reproduction is permitted only for use within our organization, and that circulation outside our organization is prohibited.

Signature_____ Date_____

Company or organization_____

Chart 6

Argentina: rate of return differential and capital flight

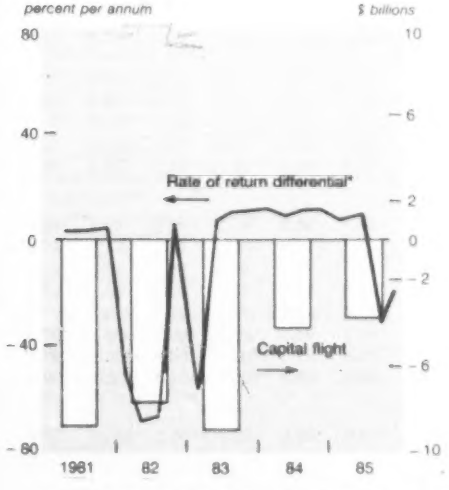


*Realized rate of return differential between Argentina and the United States on domestic CDs, adjusted for exchange rate changes.

the Baker initiative. To improve growth prospects the debtor countries need to raise investment and increase its productivity. This, in turn, requires expansion of domestic savings, reversal of capital flight, and efficient allocation of available resources. If financial market reforms and other structural changes are implemented to remedy existing deficiencies, then inflows of foreign capital can make an enduring and positive contribution to Latin American economic growth.

Chart 7

Mexico: rate of return differential and capital flight



*Realized rate of return differential between Mexico and the United States on domestic CDs, adjusted for exchange rate changes.

Statistical appendix

For key to data in tables see February 1986 issue.

Nominal effective exchange rates, 12

Real effective exchange rates — industrial countries, 12

Real effective exchange rates — developing countries, 13

International banking market size, 13

International bond issues and bank credits, 14

Eurocurrency deposit rates, 15

International bond yields, 15

Central bank discount rates, 16

Day-to-day money rates, 16

Treasury bill rates, 17

Representative money market rates, 17

Commercial bank deposit rates, 18

Domestic government bond yields, 18

Commercial bank lending rates to prime borrowers, 19

Domestic corporate bond yields, 19

Information herein is from sources considered to be reliable but is furnished without responsibility on the part of Morgan Guaranty Trust Company.

Nominal effective exchange rates

Index numbers, 1980-82 average=100.

		United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Neth-erlands	Spain	Swit-zerland	Den-mark	Norway	Swe-den
1981		99.5	100.2	105.8	104.0	100.4	97.2	98.8	102.1	98.9	101.8	97.1	99.4	98.3	99.2	100.1	103.3
1982		109.8	99.4	98.6	100.1	93.1	102.8	92.8	98.1	101.7	92.3	102.7	94.1	106.3	95.7	101.7	92.8
1983		114.2	100.8	107.8	92.0	87.3	107.6	90.3	91.6	103.6	90.0	105.0	78.4	111.5	96.4	99.4	82.2
1984		122.4	97.3	113.0	94.2	84.4	107.4	86.7	88.1	103.6	88.9	104.0	77.4	110.5	93.9	97.8	84.3
1985		127.1	92.8	115.8	76.3	85.4	107.7	82.2	88.2	104.2	89.5	103.9	75.6	109.5	95.0	95.6	83.9
1985																	
May		132.0	92.9	111.5	76.3	84.4	106.5	82.9	89.2	103.5	89.0	102.9	76.5	107.4	93.7	96.0	83.8
June		130.5	93.2	112.2	74.2	84.4	106.5	83.0	90.4	103.6	88.9	103.0	76.3	107.6	94.3	95.8	83.8
July		126.1	93.5	113.1	75.4	85.2	107.1	81.4	93.6	103.8	89.0	103.5	75.5	110.2	94.5	95.7	83.6
August		124.0	92.8	113.6	75.4	86.3	108.7	80.0	91.4	104.7	89.6	104.8	75.2	112.2	95.0	95.6	83.1
September		125.2	92.1	114.9	74.0	86.3	108.6	79.9	91.3	104.7	89.6	104.6	74.1	109.9	94.9	95.7	83.4
October		118.9	91.3	123.6	71.8	87.3	109.8	80.1	89.9	105.2	90.1	105.4	73.1	113.3	96.1	95.3	83.1
November		117.0	90.3	129.5	67.9	87.6	109.9	80.2	89.7	105.2	90.5	105.6	72.8	113.4	96.5	94.8	83.3
December		116.1	88.9	129.2	67.8	88.3	111.3	80.2	88.8	105.9	90.4	106.7	72.9	112.3	97.3	94.9	83.1
1986																	
January		115.1	87.9	130.1	69.1	88.8	112.5	81.0	85.3	106.4	91.1	107.6	73.0	112.1	97.6	94.8	82.7
February		111.2	87.5	138.8	66.9	89.5	113.5	81.7	82.6	106.8	91.6	108.2	73.2	114.2	98.1	95.3	82.0
March		109.0	87.3	142.3	66.5	89.6	113.8	82.0	83.1	107.1	91.7	108.5	73.8	114.0	98.3	94.7	81.9
April		108.0	88.0	145.0	67.4	86.7	114.1	81.8	84.9	107.1	92.7	108.7	73.7	114.9	98.4	94.6	81.9
March	*28*	109.7	87.5	142.2	67.6	89.1	113.0	81.6	84.9	106.7	91.2	108.0	73.3	113.9	97.6	94.6	82.1
April	*4*	110.4	88.1	143.6	68.2	88.2	112.7	81.0	85.3	106.5	91.0	107.8	73.1	114.0	97.1	95.0	82.3
	11	110.1	88.5	142.5	68.1	85.9	113.6	81.7	85.0	106.9	92.5	108.4	73.4	114.2	98.2	94.8	82.2
	18	108.1	87.7	143.6	66.9	86.3	114.2	82.0	84.9	107.2	93.7	108.6	73.8	115.1	98.6	94.5	81.9
	25	105.9	87.6	147.9	66.7	86.7	115.0	82.3	84.3	107.4	92.9	109.2	74.0	115.7	99.0	94.4	81.6
May	*2*	105.1	88.1	148.6	67.1	86.9	114.9	82.3	84.8	107.2	93.0	109.3	73.9	115.7	98.8	94.0	81.6

Real effective exchange rates — industrial countries

Index numbers, 1980-82 average=100.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Neth-erlands	Spain	Swit-zerland	Den-mark	Norway	Swe-den
1981	100.6	100.0	104.6	102.7	100.1	97.3	98.7	102.3	99.1	100.3	97.6	99.3	98.8	99.2	100.9	102.1
1982	109.9	100.4	92.3	104.3	97.8	99.2	97.8	97.9	100.7	92.3	102.5	99.8	102.6	97.3	102.5	96.7
1983	112.7	103.1	96.6	100.0	96.2	99.4	100.2	92.1	101.7	92.1	101.8	90.5	103.6	98.8	101.3	91.5
1984	118.2	101.2	97.6	105.1	96.8	96.5	101.0	89.3	102.7	90.9	100.0	95.1	99.4	96.5	100.1	96.9
1985	121.3	97.5	96.4	88.7	99.4	95.4	99.9	92.0	103.0	90.4	97.9	97.4	97.7	98.2	99.0	98.0
1985																
May	126.0	97.2	92.9	88.3	99.1	94.3	100.1	92.3	101.9	90.4	97.1	97.7	95.3	97.6	99.3	98.0
June	124.7	97.7	93.1	86.5	98.5	94.2	100.8	93.9	102.2	90.8	97.3	97.8	95.6	97.2	99.1	97.5
July	120.6	97.8	93.6	88.5	99.5	94.6	99.3	97.7	102.8	90.1	97.5	97.1	97.6	96.6	99.0	97.4
August	118.3	97.5	94.1	89.1	101.2	96.0	97.9	95.9	103.6	89.6	98.6	97.1	99.2	97.4	98.1	97.0
September	117.9	97.8	95.5	87.7	100.6	96.1	98.3	96.2	103.4	89.6	98.4	96.8	97.9	97.8	100.5	97.0
October	114.2	95.7	101.3	84.8	100.7	96.8	99.3	94.8	104.0	89.4	98.6	95.9	101.3	100.3	99.7	97.1
November	112.7	94.6	105.6	80.6	100.4	97.1	99.3	94.8	104.3	89.7	98.6	96.3	101.6	100.6	100.1	97.2
December	111.9	93.4	105.1	80.6	102.2	97.7	99.7	93.6	105.6	89.5	99.4	96.3	100.2	101.5	100.0	96.9
1986																
January	110.4	92.9	105.7	82.5	102.5	98.5	101.1	91.5	107.1	89.6	100.1	99.3	98.7	100.3	100.3	97.2
February	105.6	93.7	113.0	80.7	103.8	99.2	101.2	89.6	108.3	89.2	101.1	100.5	100.3	101.9	101.1	97.0
March	101.7	95.0	116.4	80.8	103.5	98.9	101.7	90.8	109.1	92.3	100.7	101.9	99.7	102.4	101.1	96.9
April	100.2	96.5	118.6	82.3	100.3	98.9	101.5	93.5	109.9	93.1	100.7	103.1	99.9	102.3	101.4	97.4

Real effective exchange rates — developing countries

Index numbers, 1930-82 = 100

	Argentina	Brazil	Chile	Colombia	Mexico	Peru	Venezuela	Hong Kong	Indonesia	Korea	Malaysia	Philippines	Singapore	Taiwan	Israel	Turkey
1981	107.4	103.2	108.1	100.4	114.1	103.2	99.6	99.4	99.6	101.2	99.3	101.2	102.7	102.6	99.2	104.4
1982	76.4	112.0	96.6	104.8	81.9	103.7	109.1	102.2	110.8	102.9	104.5	105.5	98.7	96.5	107.7	95.4
1983	71.0	85.6	88.7	104.0	78.0	97.7	116.1	96.6	95.7	97.3	112.7	95.1	97.1	93.1	119.5	92.9
1984	79.8	85.5	89.8	99.3	91.5	105.6	85.6	100.3	96.7	95.9	119.1	107.4	95.8	95.5	118.3	90.6
1985	70.9	84.7	79.4	85.3	90.1	97.0	92.5	106.0	95.7	88.7	115.8	114.2	89.6	92.9	105.6	91.0
1985																
April	76.0	89.0	81.4	91.2	98.9	95.9	92.4	108.7	100.2	92.1	118.5	118.7	94.4	96.1	112.5	96.4
May	76.5	84.1	82.7	88.9	97.9	99.7	93.6	108.9	100.0	91.0	118.9	117.4	93.1	95.1	104.5	94.1
June	75.4	80.9	84.7	86.7	97.4	99.8	93.4	108.1	98.9	90.0	118.5	116.4	91.3	94.5	105.2	90.0
July	67.8	78.8	76.7	83.3	93.9	99.7	92.8	105.3	96.1	87.7	116.2	113.5	87.8	91.8	99.1	86.5
August	66.9	80.6	74.1	81.6	82.0	92.1	92.8	103.2	94.5	85.8	114.6	110.2	86.1	90.2	98.3	85.2
September	67.6	80.9	75.5	80.7	82.7	94.6	94.1	104.9	94.6	85.9	115.4	111.6	86.9	90.9	101.7	86.2
October	65.0	79.4	73.0	76.3	78.8	93.3	90.9	101.7	88.7	81.9	110.8	106.5	84.3	87.6	100.6	85.2
November	64.1	80.1	72.5	73.7	77.1	94.4	90.4	100.6	86.6	80.3	109.8	105.6	83.2	87.0	101.3	84.9
December	63.6	80.4	71.8	71.5	74.5	96.2	90.9	99.0	86.0	80.3	109.0	107.0	82.9	86.3	101.0	82.8
1986																
January	63.1	79.5	70.7	71.6	72.1	100.4	90.6	99.1	85.9	79.7	107.9	104.0	81.9	86.2	100.5	83.0
February	61.8	81.8	69.4	70.4	70.6	102.6	91.9	97.8	83.0	77.4	104.2	93.4	79.3	85.5	100.2	79.3
March	62.4	75.9	69.2	69.8	68.7	107.6	92.0	97.6	81.1	75.6	100.7	91.6	77.5	85.7	99.9	74.3

International banking market size

at end of period, billions of dollars

	1981	1982	1983	1984			1985		
				Jun	Sep	Dec	Mar	Jun	Sep
Gross claims									
Eurocurrencies, on residents and nonresidents	**1 929**	**2 146**	**2 253**	**2 330**	**2 322**	**2 359**	**2 457**	**2 442**	**2 598**
On nonbanks	557	634	665	679	676	694	706	706	743
On banks	1 372	1 512	1 588	1 651	1 646	1 665	1 751	1 723	1 855
In dollars	1 504	1 694	1 797	1 850	1 857	1 894	1 944	1 908	1 978
In other currencies	425	452	456	480	465	465	513	534	620
Domestic currencies, on nonresidents	**365**	**398**	**398**	**406**	**393**	**397**	**402**	**417**	**443**
On nonbanks	128	132	136	140	138	137	140	144	157
On banks	237	266	262	266	255	260	262	273	286
In dollars	188	211	217	218	208	210	201	204	197
In other currencies	177	187	181	188	185	187	201	213	246
Total	**2 294**	**2 544**	**2 651**	**2 736**	**2 715**	**2 756**	**2 859**	**2 859**	**3 041**
On nonbanks	685	766	801	819	814	831	846	863	900
On banks	1 609	1 778	850	1 917	1 901	1 925	2 013	1 996	2 141
In dollars	1 692	1 905	2 014	2 068	2 065	2 104	2 145	2 112	2 175
In other currencies	602	639	637	668	650	652	714	747	866
Gross liabilities									
Eurocurrencies, to residents and nonresidents	**1 954**	**2 168**	**2 278**	**2 360**	**2 349**	**2 386**	**2 477**	**2 462**	**2 621**
To nonbanks	372	432	479	503	492	497	508	509	529
To official monetary institutions	112	91	88	88	94	96	96	106	109
To other banks	1 470	1 645	1 711	1 769	1 763	1 793	1 873	1 847	1 983
In dollars	1 539	1 741	1 846	1 905	1 912	1 950	1 998	1 960	2 026
In other currencies	415	427	432	455	437	436	479	502	595
Domestic currencies, to nonresidents	**263**	**250**	**258**	**277**	**274**	**277**	**289**	**306**	**336**
To nonbanks	74	70	71	71	72	77	78	85	98
To banks	189	180	187	206	202	200	211	221	238
In dollars	126	116	133	140	140	143	143	150	154
In other currencies	137	134	125	137	134	134	146	156	182
Total	**2 217**	**2 418**	**2 536**	**2 637**	**2 623**	**2 663**	**2 766**	**2 768**	**2 957**
To nonbanks	446	502	550	574	564	574	586	594	627
To banks and official institutions	1 771	1 916	1 986	2 063	2 059	2 089	2 180	2 174	2 330
In dollars	1 665	1 857	1 979	2 045	2 052	2 093	2 141	2 110	2 180
In other currencies	552	561	557	592	571	570	625	658	777
Net market size	**1 155**	**1 285**	**1 377**	**1 417**	**1 407**	**1 425**	**1 447**	**1 477**	**1 558**

International bond issues and bank credits

millions of dollars

	1983	1984	1985	1986			Jan-Mar	
				Jan	Feb	Mar	1986	1985
By country of borrower								
Industrial countries	**102 652**	**177 077**	**226 711**	**17 020**	**18 480**	**22 316**	**57 817**	**44 460**
Australia	5 737	5 816	14 407	3 012	1 672	800	5 484	2 069
Austria	1 290	2 254	2 435	291	475	338	1 104	692
Belgium	2 168	1 847	3 269	111	447	1 200	1 758	632
Canada	8 571	13 124	17 184	369	2 497	1 221	4 087	6 501
Denmark	3 941	4 825	3 589	61	238	176	475	819
Finland	1 271	1 713	1 846	199	329	203	730	553
France	8 626	11 298	18 773	644	779	1 571	2 993	3 658
Germany	3 197	2 165	3 452	211	739	595	1 545	391
Greece	1 291	1 551	1 588	—	—	60	60	470
Ireland	1 869	1 377	1 881	132	312	—	444	402
Italy	4 876	6 933	11 033	974	534	528	2 036	3 346
Japan	14 428	17 526	21 269	1 145	1 660	2 908	5 712	5 826
Netherlands	1 213	1 973	2 299	90	560	491	1 141	260
New Zealand	802	3 208	2 707	420	250	423	1 093	374
Norway	1 969	1 324	3 905	178	182	279	639	525
Portugal	1 030	1 796	2 382	568	30	52	650	810
South Africa	1 300	1 422	825	—	—	—	—	202
Spain	4 977	4 931	3 913	49	265	112	425	1 037
Sweden	7 144	11 256	9 890	639	808	2 841	4 288	2 318
United Kingdom	2 726	8 899	25 424	1 495	1 651	2 944	6 090	2 036
United States	20 276	65 054	69 194	6 002	4 742	4 835	15 578	11 061
*Other**	3 950	6 785	5 447	431	311	741	1 483	461
Developing countries	**38 256**	**39 725**	**32 139**	**1 217**	**1 427**	**2 755**	**5 399**	**5 485**
Latin American countries	**15 592**	**17 464**	**8 115**	**30**	**210**	**160**	**400**	**697**
Argentina	1 750	4 212	3 700	17	—	—	17	—
Brazil	4 475	6 649	—	—	—	—	—	—
Chile	1 405	784	1 085	—	—	—	—	—
Colombia	552	589	1 052	—	—	—	—	—
Mexico	5 138	3 918	109	—	—	—	—	—
Venezuela	237	—	48	—	—	—	—	—
*Other***	2 035	1 312	2 121	13	210	160	383	697
Asian countries	**12 978**	**15 893**	**18 410**	**984**	**1 035**	**2 395**	**4 416**	**3 292**
India	968	945	818	116	133	357	606	267
Indonesia	2 363	1 924	451	300	—	657	957	—
Korea	4 387	6 201	5 898	293	198	629	1 120	1 361
Malaysia	2 197	2 605	2 220	—	32	—	32	718
Philippines	878	925	925	—	—	—	—	—
Thailand	747	1 221	1 497	—	—	500	500	550
Other	1 438	2 072	6 602	276	675	252	1 203	396
Middle Eastern and African countries	**9 686**	**6 368**	**5 614**	**203**	**180**	**200**	**583**	**1 496**
Algeria	1 993	821	1 450	—	107	—	107	600
Nigeria	2 343	985	—	—	—	—	—	—
Turkey	1 106	741	1 203	138	45	100	283	51
Other	4 244	3 821	2 960	65	27	100	193	846
Eastern European countries	**1 294**	**3 244**	**5 236**	**298**	**463**	**250**	**1 011**	**1 097**
Hungary	741	1 386	1 578	248	63	—	311	269
Soviet Union	93	1 051	1 489	—	300	250	550	206
*Other****	460	807	2 169	50	100	—	150	623
International organizations****	**16 201**	**13 287**	**20 635**	**2 089**	**1 519**	**2 075**	**5 683**	**4 684**
By type of instrument and currency								
International bond issues	**76 329**	**107 411**	**167 756**	**14 061**	**18 091**	**19 632**	**51 785**	**37 124**
Eurobonds	48 501	79 458	136 731	11 179	14 506	15 326	41 011	30 822
U.S. dollar	38 428	63 593	97 782	7 570	10 077	7 791	25 438	24 190
German mark	3 817	4 604	9 491	1 052	1 360	1 490	3 902	1 301
British pound	1 947	3 997	5 766	289	317	2 098	2 703	1 269
Japanese yen	212	1 212	6 539	1 036	1 041	2 069	4 146	1 211
European composite units	2 019	3 032	7 038	464	215	650	1 329	1 135
Other	2 078	3 020	10 114	768	1 496	1 230	3 494	1 717
Foreign bonds	27 828	27 953	31 025	2 882	3 585	4 306	10 773	6 302
U.S. dollar	4 545	5 487	4 655	914	150	900	1 964	1 140
German mark	2 671	2 243	1 741	—	—	—	—	476
British pound	811	1 292	958	—	—	109	109	66
Swiss franc	14 299	12 628	14 954	1 334	2 059	2 335	5 728	3 105
Japanese yen	3 772	4 628	6 379	321	1 259	811	2 391	1 071
Other	1 730	1 677	2 339	313	117	151	581	445
International bank credits	**82 074**	**125 922**	**116 964**	**6 563**	**3 798**	**7 763**	**18 125**	**18 582**
Eurocurrency credits	74 222	112 605	110 317	6 199	3 569	7 139	16 908	16 673
Foreign credits	7 852	13 317	6 648	364	230	624	1 217	1 909
Total	**158 403**	**233 333**	**284 720**	**20 624**	**21 890**	**27 396**	**69 909**	**55 706**

*Includes multinational organizations. **Includes unallocated. ***Includes COMECON institutions. ****Includes regional development organizations.

Eurocurrency deposit rates

prime banks' bid rates, at or near end of month

	1982	1983	1984	1985				1986			
	Dec	Dec	Dec	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Eurodollar											
overnight	9.25	9.50	8.63	8.38	7.88	7.88	12.25	7.88	7.81	7.63	6.88
one month	9.13	9.69	8.38	7.94	7.88	8.06	8.00	7.94	7.81	7.38	6.81
three months	9.19	9.81	8.63	8.06	7.94	8.06	7.88	7.94	7.75	7.31	6.75
six months	9.50	10.06	9.13	8.31	8.00	8.06	7.88	8.00	7.69	7.25	6.75
twelve months	9.63	10.38	9.81	8.56	8.25	8.17	7.94	8.13	7.75	7.25	6.81
Euro-Canadian dollar											
one month	10.00	9.13	9.88	8.38	8.31	8.88	9.00	10.69	12.88	10.75	8.38
three months	10.00	9.50	10.81	8.69	8.38	8.88	9.00	10.69	11.69	10.44	8.69
six months	10.13	9.75	10.06	9.06	8.56	8.94	9.00	10.44	10.94	9.88	8.69
twelve months	10.25	10.00	10.44	9.38	8.94	9.06	9.00	10.31	10.31	9.75	8.69
Euro-French franc											
one month	23.00	12.13	10.69	9.63	9.19	9.63	12.50	15.00	14.50	15.00	7.75
three months	24.00	12.19	10.69	10.50	9.63	9.75	13.00	16.25	14.00	12.25	7.50
six months	22.00	12.31	11.00	10.88	10.63	10.25	13.13	13.75	12.50	11.00	7.50
twelve months	19.75	12.63	11.38	11.25	10.88	10.25	12.25	12.75	10.75	10.00	7.38
Euromark											
one month	5.88	5.25	5.50	4.44	4.69	4.69	4.75	4.56	4.56	4.44	4.56
three months	5.88	5.88	5.50	4.50	4.63	4.69	4.75	4.57	4.44	4.44	4.50
six months	5.94	6.13	5.56	4.63	4.94	4.75	4.75	4.57	4.38	4.44	4.44
twelve months	6.00	6.38	5.56	4.75	5.06	4.88	4.81	4.63	4.38	4.44	4.44
Euro-Dutch guilder											
one month	5.13	5.81	5.69	5.69	6.13	5.75	5.75	5.69	5.81	5.50	5.75
three months	5.19	6.00	5.75	5.69	6.19	5.75	5.75	5.69	5.81	5.44	5.50
six months	5.38	6.25	5.81	5.69	6.19	5.88	5.81	5.69	5.75	5.44	5.38
twelve months	5.63	6.38	5.94	5.69	6.25	5.94	5.88	5.75	5.75	5.44	5.31
Euro-Swiss franc											
one month	2.81	3.38	4.44	4.19	3.88	4.00	3.88	4.06	3.75	4.00	4.12
three months	3.25	3.75	4.56	4.50	4.44	4.00	4.00	4.06	3.75	3.94	4.12
six months	3.44	3.94	4.63	4.63	4.50	4.00	4.00	4.06	3.75	3.81	4.06
twelve months	3.44	3.94	4.69	4.63	4.56	4.06	4.06	4.13	3.81	3.75	3.94
Eurosterling											
one month	10.56	9.13	9.50	11.63	11.56	11.63	11.69	12.75	12.56	11.75	10.81
three months	10.44	9.31	9.88	11.50	11.50	11.56	11.81	12.81	12.31	11.31	10.38
six months	10.31	9.50	10.00	11.19	11.44	11.31	11.81	12.75	12.00	10.56	9.81
twelve months	10.31	9.81	10.19	11.00	11.19	11.13	11.69	12.63	11.69	10.25	9.50
Euroyen											
one month	6.75	6.25	6.19	6.75	7.50	6.19	7.13	6.38	6.50	5.56	4.94
three months	6.75	6.31	6.19	6.38	7.75	7.69	6.56	6.13	5.88	5.25	4.81
six months	7.10	6.38	6.13	6.38	7.38	7.19	6.50	6.06	6.56	5.13	4.69
twelve months	6.81	6.44	6.13	6.38	7.06	6.94	6.38	6.00	6.56	5.06	4.69
European currency unit											
one month	12.44	8.81	9.25	8.31	8.31	8.31	9.63	10.63	9.94	10.06	7.94
three months	12.31	9.19	9.38	8.50	8.50	8.50	9.63	10.13	9.88	9.50	7.56
six months	12.00	9.44	9.50	8.75	8.81	8.69	9.63	9.75	9.44	8.50	7.38
twelve months	11.19	9.63	9.63	8.88	8.75	8.75	9.63	9.13	9.06	8.06	7.19

International bond yields

average yield of several actively traded, high quality issues with a maturity of 7 to 12 years at or near end of month

	1983	1984	1985					1986		
	Dec	Dec	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
United States companies										
Eurodollar	11.59	11.25	10.37	10.53	10.37	10.04	9.68	9.60	9.27	8.78
Euromark	7.34	6.95	6.67	6.74	7.13	6.95	6.73	6.73	6.61	6.67
Swiss franc	5.83	5.73	5.60	5.62	5.66	5.59	5.49	5.47	5.52	5.63
European governments										
Eurodollar	12.65	12.04	11.11	11.18	11.04	10.77	10.52	10.59	10.36	9.98
Euromark	8.12	7.39	6.89	6.96	7.23	7.14	7.03	6.95	6.81	6.77
Swiss franc	5.63	5.24	5.09	5.00	5.02	4.99	4.91	4.82	4.71	4.71
European currency unit	11.77	10.64	10.01	10.14	10.42	10.20	10.23	10.26	10.44	10.35

Central bank discount rates

at or near end of month

	1982	1983	1984	1985		1986			Current	
	Dec	Dec	Dec	Nov	Dec	Jan	Feb	Mar	May 1 1986	effective since
United States	8.50	8.50	8.00	7.50	7.50	7.50	7.50	7.00	6.50	Apr 21, 86
Canada	10.05	9.96	10.09	9.10	9.49	10.80	11.80	10.44	8.97	May 1, 86
Austria	4.75	3.75	4.50	4.00	4.00	4.00	4.00	4.00	4.00	Aug 19, 85
Belgium	11.50	10.00	11.00	8.75	9.75	9.75	9.75	9.75	8.75	Apr 10, 86
Denmark	10.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	Oct 27, 83
Finland	8.50	9.50	9.50	9.00	9.00	8.50	8.50	8.00	8.00	Mar 1, 86
France	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	Aug 31, 77
Germany	5.00	4.00	4.50	4.00	4.00	4.00	4.00	3.50	3.50	Mar 7, 86
Ireland	14.00	12.25	14.00	10.25	10.25	11.75	13.75	13.75	12.50	Mar 8, 86
Italy	18.00	17.00	16.50	15.00	15.00	15.00	15.00	14.00	13.00	Apr 25, 86
Netherlands	5.00	5.00	5.00	5.00	5.00	5.00	5.00	4.50	4.50	Mar 7, 86
Norway	9.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jun 6, 83
Portugal	19.00	25.00	25.00	19.00	19.00	19.00	19.00	19.00	17.50	Apr 10, 86
Spain	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jul 26, 77
Sweden	10.00	8.50	9.50	10.50	10.50	9.50	9.50	8.50	8.00	Apr 18, 86
Switzerland	4.50	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	Mar 18, 83
United Kingdom	10.00	9.00	9.38	11.31	11.31	12.31	12.31	11.31	10.31	Apr 21, 86
Japan	5.50	5.00	5.00	5.00	5.00	4.50	4.50	4.00	3.50	Apr 21, 86
New Zealand	13.00	7.50	13.50	20.90	19.80	n.a.	n.a.	n.a.	n.a.	Dec, 85
South Africa	15.45	18.50	21.75	13.50	13.50	12.50	12.50	12.50	12.50	Jan 17, 86
Argentina*	10.56	15.10	18.19	5.00	5.00	5.00	5.00	6.69	5.00	Oct, 85
Korea	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	Mar 29, 82
Philippines	6.30	8.05	12.11	10.81	11.50	11.62	n.a.	n.a.	n.a.	Jan, 86
Singapore	7.00	7.00	6.75	5.00	5.00	5.00	5.00	5.00	5.00	Jul, 85
Thailand	12.50	13.00	12.00	11.00	11.00	11.00	11.00	11.00	11.00	Jul 26, 85
Venezuela	13.00	11.00	11.00	10.00	10.00	10.00	10.00	10.00	10.00	Mar, 85

*Percent per month.

Day-to-day money rates

monthly averages

	1982	1983	1984	1985					1986		
	Dec	Dec	Dec	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
United States	8.95	9.47	8.38	7.90	7.92	7.99	8.05	8.27	8.14	7.85	7.48
Canada	10.63	8.78	10.50	8.97	8.53	8.58	8.81	9.23	9.94	11.47	11.10
Austria	6.00	5.75	7.63	5.38	4.88	5.50	6.75	7.25	6.13	6.25	5.00
Belgium	9.29	7.39	9.12	8.00	7.91	8.26	8.02	6.69	8.36	8.57	7.74
Finland	11.50	16.70	15.07	13.43	13.11	12.78	12.37	11.96	11.64	11.40	11.21
France	12.88	12.27	10.95	9.68	9.57	9.34	8.98	9.01	8.83	8.77	8.52
Germany	6.15	5.61	5.62	4.77	4.59	4.54	4.61	4.64	4.58	4.59	4.76
Ireland	14.54	12.19	14.50	10.75	9.50	9.38	8.50	9.62	12.00	14.38	14.75
Italy	19.00	17.88	17.25	14.53	14.38	14.35	14.59	14.75	15.15	16.57	17.15
Netherlands	5.31	5.84	5.60	5.92	5.74	5.87	5.78	5.75	5.75	6.01	5.72
Norway	11.00	12.30	12.50	12.70	11.80	12.25	12.50	12.40	13.00	13.20	13.20
Spain	20.18	16.77	12.11	12.99	10.86	8.99	10.49	9.78	8.44	10.49	11.20
Sweden	9.31	11.52	11.88	15.00	15.00	14.00	12.00	11.83	13.00	11.09	12.50
Switzerland	1.25	1.88	1.50	2.50	2.00	1.25	0.75	2.00	2.00	1.75	2.25
United Kingdom	6.70	7.78	6.31	11.25	9.89	9.66	14.72	9.72	11.59	11.16	12.09
Australia	10.87	4.55	10.98	15.29	15.83	15.84	16.87	18.37	18.32	18.16	16.74
Japan	6.92	6.44	6.41	6.17	6.41	6.54	7.29	8.02	6.84	5.78	5.54
South Africa	14.15	16.06	21.13	16.25	15.20	14.90	13.13	12.50	12.00	11.25	11.75
Argentina*	12.77	14.65	17.75	5.00	5.00	4.50	4.50	4.50	4.50	4.50	4.50
Brazil	150.42	184.69	272.02	194.90	230.30	237.20	229.96	352.23	541.33	376.24	n.a.
Hong Kong	9.13	13.90	6.80	2.74	4.71	4.38	5.43	6.10	5.93	6.63	6.48
Korea	13.84	11.40	10.00	9.70	9.40	9.60	9.00	8.80	8.50	9.40	9.70
Philippines	16.12	31.18	15.22	18.39	10.25	16.71	15.41	15.03	11.72	21.08	17.83
Singapore	11.45	7.05	6.01	4.37	5.34	5.79	4.49	4.53	4.84	5.75	4.85
Taiwan	9.94	7.65	8.07	8.33	6.81	5.30	5.06	4.50	4.25	5.25	3.54

*Percent per month.

Treasury bill rates

bond equivalent yields, at or near end of month

	1982	1983	1984	1985					1986		
	Dec	Dec	Dec	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
United States	8.15	9.28	7.99	7.36	7.13	7.44	7.40	7.25	7.15	7.22	6.26
Canada	9.80	9.71	9.84	8.95	8.75	8.53	8.85	9.24	10.55	11.55	10.19
Belgium	12.42	11.00	10.90	9.63	9.28	8.92	8.72	9.89	9.89	9.89	9.89
Ireland	15.25	12.01	15.10	10.43	9.89	10.14	10.41	11.15	14.32	15.02	12.08
Italy	19.11	16.95	14.69	13.99	13.37	12.90	12.76	12.71	13.33	13.14	12.75
Netherlands	5.63	5.63	5.88	5.75	5.75	6.19	5.88	5.69	5.72	6.13	5.56
Spain	15.28	14.46	12.00	12.45	10.66	9.44	9.25	9.25	9.25	9.25	9.25
Sweden	12.90	11.75	11.83	15.00	15.33	14.37	13.28	12.49	11.70	11.14	10.63
United Kingdom	9.96	9.04	9.33	11.31	11.38	11.45	11.33	11.49	12.47	12.21	11.04
Australia	9.39	8.54	12.27	16.17	16.16	16.36	18.45	19.40	18.46	17.03	14.88
Japan	5.42	4.91	4.91	4.91	4.91	4.91	4.91	4.91	4.91	4.91	3.90
New Zealand	11.25	7.80	13.50	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
South Africa	14.62	18.43	21.94	15.72	15.22	13.87	12.90	12.99	12.02	11.96	11.97
Brazil	115.40	179.15	273.03	197.15	233.20	241.20	245.38	379.77	n.a.	n.a.	n.a.
Mexico	57.44	53.78	48.67	70.56	n.a.	66.24	70.70	72.98	74.89	77.75	78.78
Philippines	14.54	15.99	47.14	21.60	18.01	17.04	16.63	16.45	16.68	23.43	23.66
Singapore	2.74	2.59	2.91	2.79	2.97	2.92	2.89	2.94	2.96	2.80	2.64

Representative money market rates

bond-equivalent yields on major short-term (mostly 3-4 month) money market instruments other than Treasury bills, at or near end of month

	1982	1983	1984	1985					1986		
	Dec	Dec	Dec	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
United States	8.94	9.89	8.34	7.91	7.89	8.07	8.01	8.01	7.91	7.80	7.34
Canada	9.95	9.87	10.10	9.15	8.95	8.70	9.25	9.45	11.25	12.05	10.80
Belgium	12.52	11.15	10.85	9.73	9.48	8.97	8.72	9.89	9.89	9.89	8.52
France	12.75	12.19	10.69	9.75	9.44	9.25	8.87	9.12	8.93	8.57	8.37
Germany	6.20	6.30	5.75	4.65	4.65	4.95	4.80	4.80	4.60	4.35	4.65
Ireland	15.75	12.19	15.13	10.38	10.25	10.25	10.50	12.00	15.25	16.25	14.63
Italy	19.00	17.88	16.88	14.38	14.38	15.00	14.63	15.13	16.00	16.75	15.00
Netherlands	5.25	6.00	5.75	5.75	5.81	6.25	5.94	5.75	5.81	5.88	5.50
Portugal	15.05	24.11	24.57	22.63	22.69	22.69	22.49	20.71	18.28	18.55	n.a.
Spain	16.97	18.99	12.16	13.03	11.17	10.16	10.13	10.13	10.37	10.44	11.13
Switzerland	3.88	3.88	5.00	4.63	4.69	4.69	4.13	4.75	4.43	4.13	4.06
United Kingdom	10.50	9.31	9.88	11.56	11.50	11.50	11.50	12.75	12.75	12.25	11.06
Australia	9.85	9.05	12.90	16.70	16.50	16.35	18.65	19.75	18.75	18.00	16.20
Japan	6.96	6.45	6.33	6.30	6.33	7.11	7.55	7.03	6.12	5.92	5.16
New Zealand	16.75	12.10	15.25	26.75	27.20	24.95	20.50	n.a.	n.a.	n.a.	n.a.
South Africa	15.26	19.12	22.78	16.50	15.25	14.03	13.20	n.a.	12.55	12.40	12.35
Chile	55.90	20.68	20.68	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Hong Kong	9.25	14.88	8.25	6.00	5.63	6.00	6.50	6.50	6.63	6.81	7.25
Indonesia	18.50	19.50	19.00	15.50	15.00	14.50	14.50	15.00	14.50	14.50	20.25
Korea	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Malaysia	8.50	9.80	10.30	8.50	7.50	7.25	8.25	8.20	8.30	8.70	8.75
Philippines	15.96	15.61	33.21	20.48	16.56	25.11	22.45	14.61	23.05	26.05	26.45
Singapore	8.69	8.44	7.00	4.56	6.38	5.81	5.44	5.88	5.53	5.31	5.00
Taiwan	n.a.	8.07	7.85	7.33	5.76	5.13	4.51	4.10	3.17	3.10	3.37
Thailand	12.25	16.00	12.00	12.00	12.00	13.50	15.00	15.50	11.50	11.25	10.00

Commercial bank deposit rates

at or near end of month

	1982	1983	1984	1985					1986		
	Dec	Dec	Dec	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
United States	8.25	9.70	8.35	7.88	7.80	7.80	7.88	7.75	7.75	7.60	7.16
Canada	9.85	9.82	10.05	9.10	8.90	8.65	9.20	9.40	11.20	12.00	10.75
Austria	6.25	6.50	7.50	5.75	5.25	5.63	6.13	6.50	6.25	6.38	5.50
Belgium	12.25	11.25	10.63	9.31	9.13	8.75	8.50	9.63	9.88	9.75	9.63
Denmark	9.00	6.00	6.00	5.00	7.00	7.00	7.00	7.00	7.00	7.00	6.00
Finland	4.25	5.25	5.25	4.75	4.75	4.75	4.75	4.75	4.25	4.25	3.75
France	8.24	7.66	7.04	6.49	6.44	6.27	6.07	6.12	6.03	6.02	5.88
Germany	6.00	5.90	5.25	4.25	4.25	4.55	4.45	4.40	4.25	4.25	4.15
Ireland	15.25	11.75	14.63	10.00	9.50	9.88	10.25	11.87	15.25	16.00	14.50
Italy	13.25	13.25	11.64	10.86	n.a.	n.a.	n.a.	11.85	11.75	11.75	11.75
Netherlands	5.38	6.13	5.69	5.69	5.69	6.19	5.81	5.81	5.69	5.75	5.38
Norway	13.50	12.75	12.75	12.00	12.00	12.00	12.00	12.00	12.25	12.25	12.25
Portugal	15.00	21.50	28.00	24.00	24.00	24.00	20.00	20.00	20.00	20.00	20.00
Spain	12.53	12.62	11.64	10.49	10.42	10.20	9.90	9.64	9.61	9.59	n.a.
Sweden	12.15	11.70	11.45	14.61	13.90	14.08	12.71	12.18	12.45	11.45	11.00
Switzerland	3.00	3.50	4.50	4.38	4.25	4.50	3.75	4.50	4.25	3.94	3.81
United Kingdom	10.31	9.31	9.88	11.31	11.28	11.44	11.38	11.75	12.75	12.13	11.06
Australia	10.20	10.40	12.75	15.89	16.76	16.20	17.76	18.80	18.63	17.95	16.13
Japan	7.00	6.40	6.38	6.41	6.43	7.32	7.93	7.05	6.24	6.10	5.32
New Zealand	16.50	11.50	15.25	25.00	23.00	24.50	21.25	n.a.	n.a.	n.a.	n.a.
South Africa	15.25	20.13	22.88	17.25	16.00	15.00	13.20	n.a.	12.70	12.65	12.60
Argentina*	8.50	14.50	31.23	7.00	5.30	4.80	5.25	5.40	5.40	4.75	4.50
Brazil	21.00	23.00	27.00	23.00	18.00	17.00	16.00	18.00	18.00	18.50	21.00
Chile	47.09	20.57	20.68	18.49	19.35	20.44	21.05	23.60	22.27	23.60	16.30
Hong Kong	9.25	14.88	8.25	6.00	5.63	6.00	6.50	6.50	6.63	6.81	7.25
Korea	7.60	7.60	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Malaysia	8.40	7.75	9.58	8.17	8.17	7.00	7.00	7.00	7.00	7.00	7.00
Mexico	52.54	57.15	47.45	65.20	65.80	66.80	69.60	72.90	73.60	75.75	79.55
Philippines	14.10	14.96	31.01	17.35	14.26	12.45	12.42	12.34	11.66	13.24	14.17
Singapore	8.25	7.44	6.13	4.51	6.38	5.81	5.01	5.26	5.01	5.01	4.94
Taiwan	7.50	7.00	6.50	6.00	5.75	5.75	5.25	5.25	5.25	5.75	4.75
Thailand	10.00	10.00	13.00	10.00	10.50	10.50	10.50	10.50	10.50	11.00	10.50
Venezuela	15.50	12.00	12.50	9.50	9.00	8.00	8.00	8.00	8.00	8.00	8.00

*Percent per month.

Domestic government bond yields

long-term issues, at or near end of month

	1982	1983	1984	1985					1986		
	Dec	Dec	Dec	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
United States	10.61	12.00	11.61	10.63	10.67	10.62	10.06	9.49	9.45	8.31	7.50
Canada	11.69	12.02	11.66	10.79	10.96	10.72	10.34	10.04	10.49	9.96	9.54
Austria	8.81	8.02	8.04	7.58	7.34	7.38	7.55	7.61	7.62	7.68	7.63
Belgium	12.66	11.89	11.56	10.59	10.42	9.65	9.43	9.60	9.62	9.38	8.41
Denmark	20.14	12.96	14.60	10.72	11.23	10.79	10.50	9.67	10.12	9.27	9.26
Finland	10.64	11.16	10.73	10.42	10.35	10.36	10.50	10.58	9.74	9.96	8.77
France	15.40	13.96	12.70	11.96	11.97	11.59	11.22	11.33	10.79	10.00	9.19
Germany	7.90	8.38	7.17	6.52	6.55	6.91	6.79	6.57	6.64	6.32	6.21
Ireland	14.54	14.25	14.90	11.74	11.92	11.84	12.10	11.84	11.92	10.68	9.35
Italy	19.70	17.69	14.52	14.04	13.74	13.73	13.70	13.66	13.43	13.80	13.37
Netherlands	8.16	8.58	7.72	6.92	6.87	7.03	7.01	6.96	6.81	6.84	6.44
Norway	13.32	12.50	12.00	12.70	12.70	12.70	12.70	13.10	13.10	13.20	12.80
Portugal	16.63	22.11	22.23	20.14	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Spain	15.46	17.25	13.93	14.37	13.92	12.58	12.12	12.30	12.35	12.36	12.22
Sweden	13.01	12.30	12.04	13.22	13.54	13.40	13.10	12.11	12.23	11.60	10.81
Switzerland	4.23	4.53	4.60	4.69	4.66	4.57	4.53	4.42	4.42	4.31	4.22
United Kingdom	10.62	9.94	10.25	10.22	10.15	10.16	10.17	10.35	10.56	9.83	8.75
Australia	13.00	13.65	13.50	13.95	13.80	14.55	15.05	14.85	14.10	13.70	12.60
Japan	7.96	7.45	6.36	6.46	6.36	6.55	6.84	6.10	6.10	5.30	4.80
New Zealand	12.84	10.50	16.90	17.80	18.35	18.10	17.00	n.a.	n.a.	n.a.	n.a.
South Africa	11.31	13.64	16.55	16.20	16.65	17.50	17.50	n.a.	17.57	17.30	17.65
Philippines	13.64	14.47	18.54	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Venezuela	15.00	13.50	14.00	12.00	12.00	12.00	12.00	12.00	12.25	12.00	12.00

Commercial bank lending rates to prime borrowers

at or near end of month

	1982	1983	1984	1985					1986		
	Dec	Dec	Dec	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
United States	11.50	11.00	10.75	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.00
Canada	12.50	11.00	11.25	10.25	10.25	10.00	10.00	10.00	11.50	13.00	12.00
Austria	11.75	9.25	9.25	9.25	9.25	9.00	9.00	9.00	9.00	9.25	9.25
Belgium	15.50	13.75	14.00	12.50	12.00	11.50	11.00	11.50	12.25	12.25	11.50
Denmark	14.00	10.00	10.50	9.50	8.50	8.50	8.50	8.50	8.50	8.50	7.50
Finland	8.95	10.18	10.63	10.43	10.42	10.43	10.40	10.37	9.90	9.90	n.a.
France	12.25	12.25	12.00	10.85	10.85	10.85	10.60	10.60	10.60	10.60	10.60
Germany	8.75	7.75	7.75	7.25	7.25	7.25	7.25	7.25	7.25	7.25	6.75
Ireland	16.50	13.75	15.75	13.50	12.50	12.50	12.50	12.50	14.50	17.50	17.50
Italy	20.75	18.75	18.00	17.00	16.00	16.00	15.88	15.88	15.88	16.00	n.a.
Netherlands	6.25	7.00	6.25	6.25	6.25	6.38	6.50	6.25	6.25	6.38	6.00
Norway	14.50	13.50	13.00	13.10	12.70	12.90	12.80	12.40	13.50	14.00	13.75
Portugal	23.50	30.00	29.00	26.50	26.50	26.50	22.50	22.50	22.50	22.50	22.50
Spain	16.90	17.31	15.84	15.49	15.36	14.98	14.80	14.75	14.66	14.58	14.58
Sweden	15.00	13.50	14.50	15.25	15.25	14.75	14.75	15.05	14.00	14.00	13.00
Switzerland	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
United Kingdom	10.00	9.00	9.50	11.50	11.50	11.50	11.50	11.50	12.50	12.50	11.50
Australia	15.00	12.75	14.00	17.75	18.50	18.50	19.50	21.00	20.60	20.50	19.75
Japan	6.28	5.89	5.70	5.69	5.69	5.69	5.70	5.71	5.70	5.66	5.38
New Zealand	13.00	11.00	14.00	22.00	23.00	22.50	21.50	n.a.	n.a.	n.a.	n.a.
South Africa	18.00	20.00	24.00	21.00	19.50	17.50	16.50	16.50	15.50	15.50	15.50
Argentina*	9.00	15.50	32.05	9.00	5.75	5.60	7.25	7.30	7.00	6.40	5.25
Brazil	23.81	24.00	31.00	24.50	19.00	18.00	17.00	19.00	19.00	19.50	21.00
Chile	64.11	30.90	60.82	n.a.	35.53	32.36	31.88	33.34	33.46	35.77	n.a.
Hong Kong	10.50	13.50	11.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	8.00
Indonesia	22.00	19.75	23.50	20.25	19.50	19.00	19.00	18.75	18.50	20.00	20.00
Korea	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Malaysia	12.50	11.00	12.00	11.00	11.00	10.50	10.50	10.50	10.50	10.50	10.50
Mexico	46.12	56.44	47.54	59.06	60.98	62.29	63.39	65.66	68.55	70.30	71.79
Philippines	18.00	18.00	44.00	23.00	n.a.	n.a.	15.50	n.a.	n.a.	n.a.	n.a.
Singapore	9.33	8.98	9.40	7.28	7.20	7.23	7.20	7.20	7.20	7.20	7.18
Taiwan	10.75	10.25	10.00	10.00	9.75	9.75	9.50	9.50	9.50	9.50	9.00
Thailand	16.00	16.00	16.50	15.50	15.50	15.50	15.50	15.50	15.50	15.50	14.00
Venezuela	17.00	16.00	16.00	13.50	13.00	13.00	13.00	13.00	13.00	13.00	13.00

*Percent per month.

Domestic corporate bond yields

long-term issues, at or near end of month

	1982	1983	1984	1985					1986		
	Dec	Dec	Dec	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
United States	11.75	12.63	12.25	11.38	11.50	11.25	10.75	10.15	10.38	9.00	8.63
Canada	12.74	12.89	12.42	11.49	11.56	11.26	10.98	10.74	12.08	12.95	12.46
France	15.86	14.35	12.94	12.17	12.36	11.99	11.68	11.76	11.38	10.81	10.13
Germany	8.20	8.30	7.20	6.90	6.80	6.90	7.00	6.90	6.80	6.80	6.70
Netherlands	7.80	8.51	7.51	7.28	n.a.	n.a.	n.a.	n.a.	n.a.	6.86	6.53
Norway	14.13	13.25	12.75	13.50	13.50	13.50	13.50	14.00	14.00	14.00	14.00
Spain	17.10	20.07	18.32	16.37	16.47	15.81	15.80	14.92	14.87	14.82	14.40
Sweden	13.37	12.21	12.33	13.25	13.50	14.00	13.50	13.25	13.21	12.73	11.99
Switzerland	5.80	4.92	5.09	5.05	5.02	4.99	4.99	4.93	4.78	4.71	4.64
United Kingdom	12.34	11.57	11.64	11.22	11.17	11.14	11.18	11.47	11.59	10.88	9.96
Japan	7.55	7.09	6.21	6.46	6.36	6.26	7.56	6.90	6.70	5.96	5.40
Korea	16.00	14.20	15.00	13.90	13.80	13.70	13.60	13.60	13.00	12.60	12.40
Venezuela	18.00	18.00	18.00	17.00	17.00	17.00	17.00	17.00	17.50	17.00	17.00

World Financial Markets

Published by
Morgan Guaranty Trust Company of New York
International Economics Department
23 Wall Street, New York, NY 10015

Member, Federal Deposit Insurance Corporation. Printed in U.S.A.